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C O N F I D E N T I A L JERUSALEM 002084

SIPDIS

NEA FOR FRONT OFFICE; NEA/IPA FOR GOLDBERGER/LENTZ; NSC FOR PASCUAL; TREASURY FOR AHERN/HAJJAR

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TAGS: [ECON](#) [EFIN](#) [KTFN](#) [KWBG](#) [PREL](#) [IS](#)

SUBJECT: FAYYAD RAISES CONCERN ABOUT CORRESPONDENT BANKING SERVICES

REF: STATE 122043

Classified By: Consul General Jake Walles, for reasons 1.4(b) and (d)

¶1. (C) Palestinian Authority (PA) Prime Minister Salam Fayyad told the Consul General on November 19 that he is concerned about the apparent decision of Israeli commercial banks to terminate correspondent banking services for Palestinian banks (reftel). Fayyad predicted the cut-off will have three major and immediate effects. First, he said, it will significantly hinder trade between Israel and the Palestinian Territories, with a resulting negative effect on Israeli business and manufacturing sectors, as the current trade balance benefits Israel. Second, Fayyad said, the PA economy will begin to move away from the shekel and towards the dollar. Third, he noted that informal transactions through East Jerusalem moneychangers would increase, with unpredictable implications for anti-terrorism finance efforts.

¶2. (C) In a subsequent conversation, Fayyad informed the Consul General that he had expressed his concern directly to Stanley Fisher, Chairman of the Bank of Israel (BOI), on November 20. According to Fayyad, Fischer was not aware of the details of the change in the banks' policies, but indicated he is concerned and will look into the matter. Fayyad requested USG involvement on the issue, and suggested we might look for ways to enlist the support of Israeli manufacturers, who have much to lose if cut off from Palestinian markets. The Consul General noted that Embassy Tel Aviv will raise the banking issue directly with Fischer.
WALLES